Europe, We Have a Problem!
Local Economic Winners and Losers of Border Closures

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Abstract

SHORT ABSTRACT

In response to the COVID-19 pandemic, European countries temporarily reintroduced internal border controls, generating a sudden and localized increase in trade and mobility costs. Exploiting this disruption as a natural experiment, we study the short-run economic effects of border closures on European municipalities using monthly nighttime lights data. We find that border municipalities experienced an average decline in economic activity of about 2 percent relative to interior areas, with pronounced heterogeneity across space. Smaller municipalities, Eastern border regions, and Western municipalities bordering Eastern countries suffered significant losses, while Western border municipalities adjacent to other Western countries benefited from domestic demand reallocation. We show that these differences depend on the economic function of cross-border mobility. When mobility supports production, border closures reduce local economic activity; when mobility is discretionary, i.e. driven by leisure or social visits, spending is redirected domestically, enhancing short-run resilience. The results highlight the importance of trade linkages and local economic structure for regional resilience to adverse mobility shocks.

EXTENDED ABSTRACT

In response to the COVID-19 pandemic, Schengen countries temporarily reintroduced internal border controls, abruptly reversing decades of European economic integration. While existing research has largely focused on national-level effects of border closures, the localized economic consequences remain underexplored. This paper leverages the sudden disruption of cross-border mobility during the first wave of the pandemic as a natural experiment to

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study short-run regional vulnerability and resilience across European municipalities. Using monthly VIIRS nighttime lights data for nearly 90,000 municipalities in 17 countries, we implement a difference-in-differences design comparing border and interior locations before and during the period of border closures. On average, border municipalities experienced a decline in economic activity of approximately 2 percent relative to interior municipalities. This average effect masks substantial heterogeneity. Losses are concentrated in smaller municipalities, in Eastern border regions, and in Western municipalities bordering Eastern countries, whereas Western border municipalities adjacent to other Western countries exhibit relative gains consistent with domestic demand reallocation. To explain these divergent regional responses, we empirically distinguish between productive and discretionary cross-border mobility using data on the pre-pandemic purpose of cross-border interactions. We show that border municipalities with a higher reliance on productive mobility—such as commuting for work, access to services, shopping, or business travel—experienced significantly larger economic losses, consistent with disruptions to local supply chains and production networks. By contrast, municipalities where cross-border mobility was predominantly discretionary, driven by leisure or social visits, exhibit relative gains as restrictions redirected spending toward domestic alternatives, partially offsetting market-access losses and generating localized resilience. Our findings highlight that the economic incidence of border closures depends critically on the functional role of cross-border mobility and local economic structure. More broadly, they underscore the importance of place-sensitive policy responses to adverse mobility shocks during crises.